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**David Roth, Chairman
California Student Aid Commission
Prepared Testimony before the CPR Commission
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Thank you for the opportunity to comment on the California Performance Review Report and its recommendations regarding the California Student Aid Commission.

First, on behalf of all the members of the Student Aid Commission, I wish to commend Gov. Schwarzenegger for launching the CPR initiative.

We share the Governor's goal of increasing government efficiency, reducing taxpayer costs and eliminating bureaucratic red tape. To do so means better public services and benefits for the students, families and postsecondary institutions we serve.

In launching the CPR process, as you recall, the Governor said he wanted to "blow up the boxes."

In our view, the Student Aid Commission happens to be one box that was blown up and successfully reengineered seven years ago, during the administration of former Republican Gov. Pete Wilson.

In 1997, the California Legislature and Gov. Wilson authorized the Commission to establish EDFUND as a non-profit, public benefit auxiliary corporation to handle the Commission's participation in the federal student loan program.

The Commission is pleased to report that the Commission-EDFUND enterprise has been a major success and today is a generator of millions of dollars of revenue for the state. For example, the 2004-05 Budget Act includes a one-time transfer of \$146.5 million from the Student Loan Operating Fund (SLOF) to fund Cal Grant awards, providing a major savings in General Fund spending. What's more, the Commission administrative budget is currently funded entirely by the Student Loan Operating Fund -- at no cost to the state General Fund.

And I am also pleased to report that the Governor and the Legislature in recent weeks have enacted legislation designed to ensure the long-term viability of the Commission and EDFUND and to sustain our ability to provide public benefits to students and institutions in the future.

As you know, the CPR's proposals as they relate to the Commission involve dismantling the Commission's grant and loan operations, placing policy functions

within a new Department of Education and Work Force Preparation; creating a fee waiver program to replace the Cal Grant program; and outsourcing the Commission's federal student loan guaranty services, currently performed by EDFUND.

The Commission respectfully opposes these specific recommendations for a number of reasons. Adoption of the CPR proposals as submitted will lead to:

- Elimination of a state agency that has generated more than \$399 million in revenue for the state for public service initiatives since 1997 (\$198 million of which would have otherwise been General Fund expenditures).
- Loss of potential future revenues generated by the Commission and EDFUND to continue to provide direct public benefits to students and institutions, such as Cal-SOAP, Cal Grant public awareness and outreach programs.
- Greatly increased costs to state taxpayers. The estimated taxpayer cost for decentralization of the Cal Grant Program alone ranges from \$1 million to \$4 million - thereby negating any cost savings from the reorganization proposed by the CPR.
- Loss of at least \$12 million in matching federal financial aid funds.
- Loss of direct public accountability and oversight by the elimination of a Commission directly responsible and responsive to the public.
- Imposition of a more complex and less reliable financial aid system for students, due to a lack of uniformity in determining program eligibility.
- Increased, ongoing workloads at each UC and CSU campus at an unknown cost.
- A greater demand for institutional aid at the UC and CSU in the face of budgetary cuts.
- The rollback of legislation recently signed by Gov. Schwarzenegger giving the Commission and EDFUND the authority to develop diversified financial aid services and products to generate more revenue for student and public benefits.

Clearly, there would be harmful consequences for students, institutions and taxpayers if the CPR proposals were to be implemented. The students we serve represent a wide spectrum of people – traditional four-year college students; community college, trade and vocational school students; and many who are the first in their families to attend college. It is essential that these students know their financial aid options and that they can expect continuity and uniformity in the distribution of aid.

Let me take a few moments to explain our story, which is a good government reform story and the basis for our opposition to the CPR's recommendations.

The Commission was established in 1955 as the "State Scholarship Commission."

Today, the Commission is best known for administering the \$800 million Cal Grant Program, ensuring that the 60,000 Cal Grant awardees statewide obtain the financial aid they are eligible to receive.

For many bright students from low-income families, getting a Commission letter that says they're eligible for a Cal Grant award makes them believe they can achieve the dream of a college education. For many students, the Cal Grant award letter is their ticket to college.

For nearly three decades, the Commission also has served as the guaranty agency in California for the state's participation in the nation's largest federally subsidized student loan program, now known as the Federal Family Education Loan (FFEL) Program.

As I noted earlier, seven years ago the Commission received authorization to establish EDFUND to serve as the Commission's guaranty services provider in the FFEL Program.

That bit of government reform has proven to be a tremendous success.

Today, EDFUND serves more than 4,600 institutions nationwide, including 1,285 in California. Last year, EDFUND processed more than \$4.4 billion in new student loans nationally and now oversees assets totaling more than \$21 billion.

The revenue generated by EDFUND has been recycled into direct public benefits to students, institutions and the State of California.

To date, EDFUND-generated revenue has funded more than \$399 million in public service initiatives, including approximately \$198 million for programs or spending that otherwise would have been state General Fund expenditures.

Those expenditures include funding for the following key programs: the Cal Grant public awareness program; the California Student Opportunity and Access Program, known as Cal-SOAP; and more recently, campus-based financial assistance programs.

As referenced earlier, the Commission's administrative budget since July 2003 has been funded entirely by revenue generated by EDFUND, another direct savings to taxpayers and the General Fund.

And as referenced earlier, EDFUND-generated revenue will directly fund Cal Grant awards for the first time. The recently signed state budget for fiscal year 2004-05 includes a one-time transfer of \$146.5 million from the Student Loan Operating Fund to cover what had been proposed reductions in the Cal Grant program.

It is against this record of performance and government efficiency, and tremendous public benefits and great savings to taxpayers, that the CPR's recommendations have been made.

With all due respect, it is our belief that the CPR's recommendations in large part are recycled proposals that have been rejected previously by the Legislature. Furthermore, they fail to take into account the substantial public benefits now funded by the Commission-EDFUND enterprise.

And if anyone were to argue anything other than that the Commission is made up of a diverse, talented and deeply committed group of people - they would be sorely mistaken. I have the honor of chairing a Commission of people who volunteer significant portions of their lives to this work - people who have full and rewarding careers, but for whom their service to the Commission is a high and noble calling. There can be no State benefit that will come from the elimination of a Commission responsible to the people, experts in their fields who are solely dedicated to ensuring that each and every student can and will achieve to their potential.

And I cannot overstate our belief that elimination of the Commission will significantly harm state workforce preparation efforts.

The Commission is the cornerstone to sustaining and improving a college-going culture in California, enabling more students who are eligible to attend college to gain access to quality postsecondary training and education. To eliminate the Commission means the elimination of many key programs.

Specifically, statewide and campus-based financial aid assistance programs will either be eliminated or revert to General Fund expenditures.

And Commission workshops to assist students with completion of the requisite federal financial aid application form to determine financial aid eligibility will be eliminated.

At the Commission and EDFUND, our mantra is simple: We put students first. And we take our mission seriously: to make higher education financially accessible to all eligible California students.

The best example of those principles is the Commission's first-in-the-nation policy of waiving the one percent guarantee fee on federal student loans.

Adoption of that policy has saved student borrowers approximately \$163 million since 1996.

In contrast, EDFUND's chief competitor announced earlier this year that it would reinstate the guarantee fee, costing their student borrowers more money.

In closing, I would like to offer that the Commission would consider other reform proposals that would reduce taxpayer costs and increase efficiencies in current operations but would also make more sense from a public policy-making point of view.

For instance, the Commission would be well-suited to absorb some of the functions of the California Postsecondary Education Commission (CPEC). Such a consolidation would allow the state to better coordinate policy decision-making in the current era of rising college fees but decreasing financial aid, which is in ever greater demand.

Let me reassure you that we are ready to do our part to have the best government possible to provide the best services and benefits to students and institutions.

Thank you for your consideration of our input and concerns.